

Who must Use Form 140?

You (and your spouse if married filing a joint return) may file Form 140 only if you are full year residents of Arizona.

You must use Form 140 rather than Form 140A or Form 140EZ to file for 1998 if any of the following apply to you.

- You are single, head of household, or married filing a separate return, and your Arizona taxable income is \$20,000 or more.
- OR
- You are married filing a joint return, and your Arizona taxable income is \$40,000 or more.
- You are making adjustments to income.
- You itemize deductions.
- You claim tax credits other than the family income tax credit or the property tax credit.
- You had income from sources other than:
 - wages;
 - salaries;
 - tips;
 - tax refunds
 - taxable scholarships or fellowships
- You had taxable interest of more than \$400;
- You had taxable dividends of more than \$400.

Do You Have to File?

Arizona Filing Requirements These rules apply to all Arizona taxpayers.		
You must file if you are:	and your gross income is at least:	or your Arizona adjusted gross income is at least:
• Single	\$15,000	\$5,500
• Married filing jointly	\$15,000	\$11,000
• Married filing separately	\$15,000	\$5,500
• Unmarried head of household	\$15,000	\$5,500
If you are an Arizona resident, you must report income from all sources. This includes out-of-state income.		
To see if you have to file, figure your gross income the same as you would figure your gross income for federal income tax purposes. Then, you should exclude income Arizona law does not tax.		
Income Arizona law does not tax includes:		
<ul style="list-style-type: none"> interest from U.S. Government obligations social security retirement benefits received under Title II of the Social Security Act benefits received under the Railroad Retirement Act 		
You can find your Arizona adjusted gross income on line 22 of Arizona Form 140.		

NOTE: Even if you do not have to file, you must still file a return to get a refund of any Arizona income tax withheld.

Do You Have To File if You Are an American Indian?

You must file if you meet the Arizona filing requirements unless **all** the following apply to you.

- You are an enrolled member of an Indian tribe.
- You live on the reservation established for that tribe.
- You earned all of your income on that reservation.

To find out more, see Arizona Department of Revenue Income Tax Ruling ITR 96-4.

Do You Have to File if You Are a Non-Indian or Non-Enrolled Indian Married to an American Indian?

You must file if you meet the Arizona filing requirements. For details on how to figure what income to report, see Arizona Department of Revenue Income Tax Ruling ITR 96-4.

Do You Have to File if You Are in the Military?

You must file if you meet the Arizona filing requirements.

If you are an Arizona resident, you must report all of your income, no matter where stationed. You must include your military pay. If you were an Arizona resident when you entered the service, you remain an Arizona resident until you establish a new domicile.

If you are not an Arizona resident, but stationed in Arizona, the following applies to you.

- You are not subject to Arizona income tax on your military pay.
- You must report any other income you earn in Arizona. Use Form 140NR, *Nonresident Personal Income Tax Return*, to report this income.

To find out more, see Arizona Department of Revenue brochure, Pub 704, *Taxpayers in the Military*.

If You Included Your Child's Unearned Income on Your Federal Return, Does Your Child Have to File an Arizona Return?

In this case, the child should not file an Arizona return. The parent must include that same income in his or her Arizona taxable income.

Residency Status

If you are not sure if you are an Arizona resident for state income tax purposes, you should get Arizona Department of Revenue Income Tax Procedure ITP 92-1.

Residents

You are a resident of Arizona if your domicile is in Arizona. Domicile is the place where you have your permanent home. It is where you intend to return if you are living or working temporarily in another state or country. If you leave Arizona for a temporary period, you are still an Arizona resident while gone. A resident is subject to tax on all income no matter where the resident earns the income.

Part-Year Residents

If you are a part-year resident, you must file Form 140PY, *Part-Year Resident Personal Income Tax Return*.

You are a part-year resident if you did either of the following during 1998.

- You moved into Arizona with the intent of becoming a resident.
- You moved out of Arizona with the intent of giving up your Arizona residency.

Nonresidents

If you are a nonresident, you must file Form 140NR, *Nonresident Personal Income Tax Return*.

What if a Taxpayer Died?

If a taxpayer died before filing a return for 1998, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund.

The person who files the return should use the form the taxpayer would have used. **If the department mailed the taxpayer a booklet, do not use the label.** The person who files the return should print the word "deceased" after the decedent's name in the address section of the form. Also enter the date of death after the decedent's name.

If your spouse died in 1998 and you did not remarry in 1998, or if your spouse died in 1999 before filing a return for 1998, you may file a joint return. If your spouse died in 1998, the joint return should show your spouse's 1998 income before death, and your income for all of 1998. If your spouse died in 1999, before filing the 1998 return, the joint return should show all of your income and all of your spouse's income for 1998. Print "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign the return.

Are Any Other Returns Required?

You may also have to file fiduciary income tax or estate tax returns. For details, call the department at (602) 542-4022.

Claiming a Refund for a Deceased Taxpayer

If you are claiming a refund, you **must** complete Form 131, *Claim for Refund on Behalf of Deceased Taxpayer*. Attach this form to the **front** of the return.

What Are The Filing Dates And Penalties?

When Should You File?

Your 1998 calendar year tax return is due no later than midnight, April 15, 1999. File your return as soon as you can after January 1, but no later than April 15, 1999.

If you are a fiscal year filer, your return is due on the 15th day of the fourth month following the close of your fiscal year.

What If You Cannot File On Time?

You may request an extension if you know you will not be able to file on time.

NOTE: An extension does not extend the time to pay your income tax. For details, see the instructions for Arizona Form 204.

To get a filing extension, you can either:

1. Apply for a state extension (Form 204). To apply for a state extension, file Arizona Form 204 by April 15. See Form 204 for details.
2. You may use your federal extension (federal Form 4868 or 2688). File your Arizona return by the same due date.

You must attach a copy of the federal extension to the front of your return. If you use federal Form 2688, the IRS must have approved the extension. If you must make a payment, use Arizona Form 204 instead.

Attach a copy of your extension to the front of your return when you file.

When Should You File if You Are a Nonresident Alien?

You must file your Arizona tax return by April 15, even though your federal income tax return is due on June 15. If you want to file your Arizona return when you file your federal return, you may ask for an extension. See Form 204 for extension filing details.

What if You File or Pay Late?

If you file or pay late, the department can charge you interest and penalties on the amount you owe. If the U.S. Post Office postmarks your return by April 15, 1999, your 1998 calendar return will not be late.

Late Filing Penalty

If you file late, the department can charge you a late filing penalty. This penalty is 5 percent of the tax found to be remaining due for each month or fraction of a month the return is late. This penalty cannot exceed 25 percent of the tax found to be remaining due.

Late Payment Penalty

If you pay your tax late, the department can charge you a late payment penalty. This penalty is 10 percent of the tax not paid on time.

Extension Underpayment Penalty

If you file your return under an extension, you must pay 90 percent of the tax shown on your return by the return's original due date. If you do not pay this amount, the department can charge you a penalty. The department can also charge you this penalty if you do not attach the extension to your return when you file. This penalty is one-half of one percent (.005) of the tax not paid for each 30 day period or fraction of a 30 day period. The department charges this penalty from the original due date of the return until the date you pay the tax. This penalty cannot exceed 25 percent of the unpaid tax.

NOTE: *If you are subject to two or more of the above penalties, the total cannot exceed 25 percent.*

Interest

The department charges interest on any tax not paid by the due date. The department will charge you interest even if you have an extension. If you have an extension, the department will charge you interest from the original due date until the date you pay the tax. The Arizona rate of interest is the same as the federal rate.

When Should You Amend a Return?

If you need to make changes to your return once you have filed, you should file Form 140X, *Individual Amended Return*. **Do not** file a new return for the year you are correcting. Generally, you have four years to amend a return to claim a refund.

If the Internal Revenue Service makes a change to your federal taxable income for any year, you must file a Form 140X for that year. In this case, you must amend your Arizona return within 90 days of the change. Attach a complete copy of the federal notice to your Form 140X.

If you amend your federal return for any year, you must also file a Form 140X for that year. You must file the Form 140X within 90 days of amending your federal return.

Do You Need To Make Estimated Payments in 1999?

You must make Arizona estimated income tax payments during 1999 if either of the following apply.

1. You reasonably expect your Arizona gross income will exceed \$75,000 in 1999.
2. Your Arizona gross income in 1998 was greater than \$75,000.

Make sure you use ordinary business care and prudence when you project your income for 1999.

NOTE: *Arizona's Community property laws may have an effect on whether you have to make estimated payments. For details, see Arizona Department of Revenue Income Tax Ruling ITR 92-1.*

What if You Make Your Estimated Payments Late?

The department will charge you a penalty if you fail to make any required payments. The department will charge you a penalty if you make any of your required payments late. The department will also charge you interest on any late or underpaid estimated tax payment.

For details, see Arizona Form 221.

Can You Make Estimated Payments If You Do Not Have To?

If you do not have to make Arizona estimated income tax payments, you may still choose to make them.

For details, see Arizona Forms 140ES and 221.

Line-by-Line Instructions

Tips for Preparing Your Return:

- Complete your return using black ink.
- You must round dollar amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.
- When asked to provide your own schedule, attach a separate sheet with your name and SSN at the top. Attach your own schedules to the back of your return.
- You must complete your federal return before you can start your Arizona return.
- Make sure you include your home telephone number. If your daytime number is not the same as your home number, make sure you include a daytime telephone number.
- If filing a fiscal year return, fill in the period covered in the space provided at the top of the form.

Entering Your Name, Address, and Social Security Number (SSN)

Lines 1, 2, and 3 -

If your booklet has a peel-off label, use that label if all the information is correct. **If any of the information on the label is incorrect, do not use the label.** Attach the label after you finish your return. If you do not have a peel-off label, print or type your name, address, and SSN in the space provided. If you are a nonresident of the United States or a resident alien who does not have an SSN use the identification number (ITIN) the IRS issued to you.

If you are filing a joint return, enter your SSNs in the same order as your first names. *If your name appears first on the return, make sure your SSN is the first number listed.* If you and your spouse have different last names, write the word "and" between your last names. Put your last names in the same order as your first names and SSNs. In this case, the department will issue any refund under the last name listed first on the return.

For a deceased taxpayer, see page 2 of these instructions.

Use your current home address. The department will send your refund or correspond with you at that address.

NOTE: *Make sure your SSN is correct. If you are filing a joint return, also make sure you list your SSNs in the same order every year.*

Make sure that every return, statement, or document that you file with the department has your SSN. Make sure that all SSNs are clear and correct. You may be subject to a penalty if you fail to include your SSN. It may take longer to process your return if SSNs are missing, incorrect, or unclear.

Identification Numbers for Paid Preparers

If you pay someone else to prepare your return, that person must also include an identification number where requested.

A paid preparer may use either of the following.

- his or her SSN
- the federal employer identification number for the business

A paid preparer who fails to include the proper numbers may also be subject to a penalty.

Determining Your Filing Status

The filing status that you use on your Arizona return may be different from that used on your federal return.

Use this section to determine your filing status. Check the correct box (4 through 7) on the front of Form 140.

Line 4 Box - Married Filing a Joint Return

You may use this filing status if married as of December 31, 1998. It does not matter whether or not you were living with your spouse. You may elect to file a joint return, even if you and your spouse filed separate federal returns.

You may use this filing status if your spouse died during 1998 and you did not remarry in 1998. See "Deceased Taxpayer" section on page 2 for details.

The Arizona Form 140 is for full year residents only. You may not file a joint Arizona income tax return on Form 140 if any of the following apply.

1. Your spouse is a nonresident alien (citizen of and living in another country).
2. Your spouse is a resident of another state.
3. Your spouse is a part-year Arizona resident.

If filing a joint return with your nonresident spouse, you may file a joint return using Form 140NR. See Form 140NR instructions.

If filing a joint return with your part-year resident spouse, you may file a joint return using Form 140PY. See Form 140PY instructions.

For details on filing a joint return with your part-year resident or nonresident spouse, see Arizona Department of Revenue Income Tax Ruling ITR 95-2.

Line 5 Box - Head of Household

NOTE: *Changes made to Arizona law during 1998 may affect your ability to file as head of household.*

You may now file as head of household on your Arizona return, only if one of the following applies.

- You qualify to file as head of household on your federal return.
- You qualify to file as a qualifying widow or widower on your federal return.

Line 6 Box - Married Filing Separately

You may use this filing status if married as of December 31, 1998, and you elect to file a separate Arizona return. You may elect to file a separate return, even if you and your spouse filed a joint federal return.

If you are filing a separate return, check the line 6 box and enter your spouse's name in the space provided. Also enter your spouse's SSN in the space provided on line 2.

Arizona is a community property state. If you file a separate return, you must figure how much income to report using community property laws. Under these laws, a separate return must reflect one-half of the community income from all sources plus any separate income.

When you file separate returns, you must account for community deductions and credits on the same basis as community income. Both you and your spouse must either itemize or not itemize. If one of you itemizes, you both must itemize. If one of you takes a standard deduction, you both must take a standard deduction. One of you may not claim a standard deduction while the other itemizes.

If you and your spouse support a dependent child from community income, either you or your spouse may claim the dependent. Both of you cannot claim the same dependent on both returns.

For details on how to file a separate Arizona income tax return, see Arizona Department of Revenue Income Tax Rulings ITR 93-18 and ITR 93-19.

NOTE: *If you can treat community income as separate income on your federal return, you may also treat that community income as separate on your Arizona return. See Arizona Department of Revenue Ruling ITR 93-22.*

If you are filing a separate return and your spouse is not a resident of Arizona, other special rules may apply. For more details, you should see Arizona Department of Revenue Income Tax Ruling, ITR 93-20.

Line 7 Box - Single

Use this filing status if you were single on December 31, 1998. You are single if any of the following apply to you.

- You have never been married.
- You are legally separated under a decree of divorce or of separate maintenance.
- You were widowed before January 1, 1998, and you did not remarry in 1998, and you do not qualify to file as a qualifying widow or widower with dependent children on your federal return.

Exemptions

Write the number of exemptions you are claiming in boxes 8, 9, and 10. Do not put a checkmark. You may lose the exemption if you put a checkmark in these boxes. You may lose the dependent exemption if you do not complete Part A on page 2.

Line 8 Box - Age 65 and Over

Write "1" in box 8 if you or your spouse were 65 or older in 1998. Write "2" in box 8 if both you and your spouse were 65 or older in 1998.

Line 9 Box - Blind

Write "1" in box 9 if you or your spouse are totally or legally blind. Write "2" in box 9 if both you and your spouse are totally or legally blind. To qualify as legally blind, you must attach a physician's letter stating one of the following.

1. Your vision is 20/200 or poorer with corrective lenses.
2. Your field of vision is 20 degrees or less.

Line 10 Box - Dependents

You must complete Part A on page 2 of your return before you can total your dependent exemptions.

NOTE: *Changes made to Arizona law during 1998 may affect who you may claim as a dependent.*

You may now claim only the following as a dependent.

- A person that qualifies as your dependent on your federal return.
 - A person who is age 65 or over (related to you or not) that does not qualify as your dependent on your federal return, but one of the following applies.
1. In 1998, you paid more than one-fourth of the cost of keeping this person in an Arizona nursing or licensed supervisory care home. Your cost must be more than \$800.
 2. In 1998, you paid more than \$800 for either Arizona home health care or other medical costs for the person.

Completing Line(s) A1

Enter the following on line(s) A1.

1. The dependent's name.
2. The dependent's social security number.
3. The dependent's relationship to you.
4. The number of months the dependent lived in your home during 1998.

You may lose the exemption if you do not furnish this information.

Line A2 - Total Dependents

Enter the total number of persons listed on line(s) A1. Enter the same number onto the front of the return in box 10.

Line A3 - Persons You Cannot Take as Dependents on Your Federal Return

Enter the names of any dependents age 65 or over listed on line(s) A1 that you cannot take as a dependent on your federal return.

Additions to Income

Line B4 - Non-Arizona Municipal Interest

Enter the amount of interest income from non-Arizona municipal bonds that you did not include as income on your federal return.

You may exclude any expenses incurred to purchase or carry the obligation. Reduce the interest income by the amount of those expenses that you could not deduct on your federal return.

If you received tax exempt interest from municipal bonds, attach a schedule listing the payors and the amount received from each payor. You may also want to attach supporting documents for amounts received from Arizona municipal bonds that are exempt from Arizona income tax. These may be items such as bank statements, brokerage statements, etc.

Line B5 - Early Withdrawal of Arizona, County, City, or School Retirement System Contributions

If you meet all the following, you must enter an amount here.

1. You left your job with the State of Arizona or an Arizona county, city, or school district for reasons other than retirement.
2. When you left, you took out the contributions you had made to the retirement system while employed.
3. You deducted these contributions on your Arizona income tax returns that you filed for prior years.
4. You did not include these contributions in your federal adjusted gross income this year.

If you meet all these tests, you must report as income those contributions previously deducted on your prior years' Arizona tax returns.

For details, see Arizona Department of Revenue Income Tax Ruling ITR 93-7.

Line B6 - Ordinary Income Portion of Lump Sum Distributions Excluded on Your Federal Return

Use line B6 if you use federal 5 or 10 year averaging for lump-sum distributions from your pension or profit-sharing plan.

Arizona law does not provide for 5 or 10 year averaging. Enter the amount of the distribution that you treated as ordinary income on your federal return. If you choose to treat the capital gain portion of the distribution as ordinary income, you must also include that amount.

For details, see Arizona Department of Revenue Income Tax Ruling ITR 93-5.

Line B7 - Agricultural Water Conservation Expenses

If you take this credit, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal

return.

Line B8 - Other Additions to Income

Use line B8 if any of the special circumstances below applies.

Attach your own schedule to the back of your return explaining any amounts entered here.

You may either add or subtract items A through C below (line B8 or C18, respectively) depending on your situation.

A. Pension Adjustments

Use this adjustment if both of the following apply.

1. Arizona taxed your pension for years before 1979.
2. You reported that pension on your federal return using the percentage exclusion method.

Do not use this adjustment if either of the following apply.

1. You reported your pension income as fully taxable on your federal return.
2. You reported your pension income on your federal return under the "three-year-rule".

Pension Adjustment Worksheet - Line B8	
Follow these steps to figure the adjustment. Worksheet (Keep for your records.)	
1. Your contribution to annuity.	1.
2. Pension amount received in prior years.	2.
3. Remainder of cost (line 1 minus line 2 but not less than zero).	3.
4. Pension amount received this year.	4.
5. Amount from line 3.	5.
6. Subtract line 5 from line 4 (but not less than zero).	6.
7. Enter the pension amount taxable on your federal return.	7.
8. Subtract line 7 from line 6.	8.
If line 8 is more than zero, enter the amount on line 8 as an addition to income. Enter the addition on line B8.	
If line 7 is more than line 6, enter the difference as a subtraction from income. Enter the subtraction on line C18.	

B. Married Persons Filing Separate Returns

If you file a separate Arizona return, you must report the following income on that return.

You must report one-half of the community income from all sources.

You must report all of your separate income.

If you and your spouse file a joint federal return but separate Arizona returns, you must make sure that each separate return reflects the correct income. If you begin your Arizona return with only the income that you earned during the year,

you will have to adjust this income.

If you file separate federal returns, each of your federal returns should already reflect the correct income. Since your separate Arizona returns will begin with the federal adjusted gross income, you will not have to adjust your income.

If you have to adjust your income, attach a schedule showing how you figured your adjustment.

C. Partnership Income

Use this adjustment if your Arizona Form 165, Schedule K-1, shows a difference between federal and state distributable income.

If the difference reported on your Arizona Form 165, Schedule K-1, is a positive number, enter that difference as an addition. Enter the addition on line B8.

If the difference reported on your Arizona Form 165, Schedule K-1, is a negative number, enter that difference as a subtraction. Enter the subtraction on line C18.

D. Estate or Trust Income

Enter on line B8 the amount from Arizona Form 141, Schedule K-1, line 3. For Arizona purposes, this is your share of the distributive income.

If you make an entry here, you must also make an entry on line C18, Other Subtractions. Subtract trust or estate income shown on your federal Form 1041, Schedule K-1, included in your federal adjusted gross income.

You must also add to Arizona gross income:

1. Your share of the estate's or trust's deductions allowed under the Internal Revenue Code.
2. Your share of excess deductions and loss carryovers allowed under the Internal Revenue Code as deductions to the beneficiary on termination of an estate or trust.

You must add the above deductions and loss carryovers to your Arizona gross income only to the extent these items are included in computing your Arizona taxable income.

E. Net Operating Losses

Arizona does not have specific net operating loss provisions for individual taxpayers. Arizona conforms to the federal net operating loss provisions, including the carryback provisions. Generally, the amount of net operating loss deduction included in your federal adjusted gross income is the amount allowable for Arizona purposes. However, there are instances when the amount allowable for Arizona purposes may be different. You must adjust the amount of net operating loss deduction included in your federal adjusted gross income if the following apply.

1. You have already deducted any amount of the net operating loss included in your federal adjusted gross income for Arizona purposes.
2. The net operating loss was from a loss incurred from non-Arizona sources while a nonresident.
3. You took a separate subtraction for the net operating loss on an amended return filed for a prior tax year under the special net operating loss transition rule.

If the above apply, enter the following on line B8.

1. The amount of net operating loss included in your federal adjusted gross income which you previously deducted for Arizona purposes.
2. The amount of net operating loss included in your federal adjusted gross income from losses incurred from non-Arizona sources while a nonresident.
3. The amount of net operating loss included in your federal adjusted gross income for which you took a separate subtraction on an amended return filed for a prior tax year under the special net operating loss transition rule.

For information on deducting a net operating loss carryback, see Arizona Department of Revenue Income Tax Procedure ITP 97-2.

F. Items Previously Deducted for Arizona Purposes

Arizona statutes prohibit a taxpayer from deducting items more than once. However, under the operation of former (1989 and prior) Arizona law, you could deduct certain items in greater amounts for Arizona purposes than for federal purposes.

Investment interest and passive activity losses were such items. In some cases, you could have deducted such amounts in their entirety on the Arizona return. For federal purposes, the deduction for these items was limited, with the unused portions being carried forward and deducted in future years. Your Arizona return may include these previously deducted items because of the difference between the federal and former Arizona treatment. If your Arizona taxable income includes items previously deducted for Arizona purposes, you must add such amounts to your Arizona gross income.

G. Claim of Right Adjustment for Amounts Repaid in 1998

You must make an entry here if all of the following apply.

1. During 1998, you were required to repay amounts held under a claim of right.
2. The amount required to be repaid during 1998 was more than \$3,000.
3. You took a deduction for the amount repaid on your 1998 federal income tax return.

If the above apply, enter the amount deducted on your federal income tax return here.

For more information on the Arizona claim of right provisions, see Arizona Department of Revenue Individual Income Tax Procedure ITP 95-1.

H. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply.

1. During a year prior to 1998 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.

3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1998 Arizona taxable income.
5. The amount of the loss carryover included in your federal income is more than the amount allowed to be taken into account for Arizona purposes.

Enter the amount by which the loss carryover included in your federal adjusted gross income is more than the amount allowed for the taxable year under Arizona law.

I. Addition to S Corporation Income Due to Credits Claimed

Shareholders of an S corporation who claim a credit passed through from an S corporation must make an addition to income for the amount of expenses disallowed by reason of claiming the credit.

An S corporation that passes the following credits through to its shareholders must notify each shareholder of his or her pro rata share of the adjustment. You must enter an amount on this line when claiming any of the following credits.

- Agricultural water conservation credit
- Defense contracting credit
- Environmental technology facility credit
- Pollution control credit
- Recycling credit
- Credit for solar hot water heater plumbing stub outs and electric vehicle recharge outlets
- Credit for employment of TANF recipients

J. Solar Hot Water Heating Plumbing Stub Out And Electric Vehicle Recharge Outlet Expenses

If you take a credit for installing solar hot water heating plumbing stub outs or electric vehicle recharge outlets in a dwelling you constructed, you cannot deduct any expenses for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

K. Wage Expense for Employers of TANF Recipients

If you take a credit for employing TANF recipients, you cannot deduct any wage expense for which you claim the credit. If you take this credit, enter the amount of such expenses that you deducted on your federal return.

L. Other Adjustments

Other special adjustments may be necessary. You may need to make an addition for depreciation or amortization. You may also need to make an addition if you claimed certain tax credits. Call one of the numbers listed on the quick and easy access to tax help and forms page if any of the following apply.

- You are a qualified defense contractor that elected to amortize under Arizona Revised Statutes section 43-

1024.

- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.
- You are still depreciating or amortizing a child care facility for which you claimed a state credit.
- You claimed the environmental technology facility credit.
- You claimed the pollution control credit.
- You claimed the recycling credit.
- You elected to amortize the basis of a pollution control device or the cost of a child care facility under Arizona law in effect before 1990. You are still deducting amortization or depreciation for that device or facility on your federal income tax return.

Line B9 - Total Additions

Add lines B4 through B8. Enter the total on line B9 and on the front of your return on line 12.

Subtractions From Income

You may only subtract those items for which statutory authority exists. Without such authority you cannot take a subtraction. If you have any questions concerning subtractions from income, call one of the numbers listed on the quick and easy access to tax help and forms page.

NOTE: *You may not subtract any amount that is allocable to income excluded from your Arizona taxable income.*

Line C10 - Interest on U.S. Obligations

Enter the amount of interest income from U.S. Government obligations included as income on your federal return. U.S. Government obligations include obligations such as savings bonds and treasury bills. You cannot deduct any interest or other related expenses incurred to purchase or carry the obligations. If such expenses are included in your Arizona gross income, you must reduce the subtraction by such expenses. If you are itemizing deductions on your Arizona return, you must exclude such expenses from the amount deducted.

NOTE: *Do not subtract interest earned on FNMA or GNMA bonds since this interest is taxable by Arizona. For details, see the department's Guidelines for Exempt Securities, G 91-4.*

Do not subtract any amount received from a qualified pension plan that invests in U.S. Government obligations. Do not subtract any amount received from an IRA that invests in U.S. Government obligations. These amounts are not interest income. For details, see Arizona Department of Revenue Income Tax Rulings ITR 96-2 and ITR 96-3.

Line C11 - Exclusion for U.S. Government, Arizona State or Local Government Pensions

If you receive pension income from any of the sources listed below, subtract the amount you received or \$2,500, whichever is less. Include only the amount you reported as income on your federal return. If both you and your spouse receive such pension income, each spouse may subtract the amount received or \$2,500, whichever is less.

Public pensions from the following sources qualify for this subtraction.

- The United States Government Service Retirement and Disability Fund
- The United States Foreign Service Retirement and Disability System
- Retired or retainer pay of the uniformed services of the United States
- Any other retirement system or plan established by federal law

NOTE: *This applies only to those retirement plans authorized and enacted into the U.S. Code. This does not apply to a retirement plan that is only regulated by federal law (i.e., plans which must meet certain federal criteria to be qualified plans).*

- The Arizona State Retirement System
- The Arizona State Retirement Plan
- The Corrections Officer Retirement Plan
- The Public Safety Personnel Retirement System
- The Elected Officials' Retirement Plan
- A retirement plan established for employees of a county, city, or town in Arizona
- An optional retirement program established by the Arizona Board of Regents under Arizona Revised Statutes
- An optional retirement program established by an Arizona community college district.

NOTE: *Public retirement pensions from states other than Arizona do not qualify for this subtraction.*

Line C12 - Arizona Lottery Winnings

You may subtract all winnings received in 1998 related to an Arizona lottery prize won before March 22, 1983. You may subtract up to \$5,000 of winnings received in 1998 for Arizona lottery prizes won after March 21, 1983.

If you subtract Arizona lottery winnings here, you may have to adjust the amount of gambling losses claimed as an itemized deduction. See "Allowable Arizona Itemized Deductions."

Line C13 - Social Security Benefits or Railroad Retirement Benefits

Arizona does not tax social security benefits received under Title II of the Social Security Act. Arizona does not tax railroad retirement benefits received from the Railroad Retirement Board under the Railroad Retirement Act. If you included such social security or railroad retirement benefits as income on your federal return, use line C13 to subtract this income.

Enter only the amount that you had to include as income on

your federal return.

See Arizona Department of Revenue Income Tax Ruling ITR 96-1 for more information about railroad retirement benefits.

Line C14 – Agricultural Crops Given to Arizona Charitable Organizations

Arizona law allows a subtraction for qualified crop gifts made during 1998 to one or more charitable organizations. To take this subtraction, you must be engaged in the business of farming or processing agricultural crops. The crop must be grown in Arizona. You must make your gift to a charitable organization located in Arizona that is exempt from Arizona tax.

The subtraction is the greater of 80 percent of the wholesale market price or 80 percent of the most recent sale price for the contributed crop.

To determine if your crop gift qualifies for this subtraction, see Arizona Department of Revenue Income Tax Procedure ITP 93-2.

Line C15 - Alternative Fuel Vehicles and Refueling Equipment

Arizona law allows a subtraction for alternative fuel vehicles.

You may qualify to take this subtraction if you did any of the following.

1. Purchased or leased a new alternative fuel vehicle for use in Arizona.
2. Converted a conventional fuel vehicle to an alternative fuel vehicle for use in Arizona.
3. Installed alternative fuel vehicle refueling equipment on your property in Arizona.

You may also subtract some personal interest if your purchase or conversion was for your private non-commercial use. The total subtraction is the sum of the amounts allowed to be subtracted for each item.

To figure your subtraction complete Form 313. Enter the amount from Form 313, Part I, line 32, here.

Line C16 - Certain Wages of American Indians

Enrolled members of American Indian tribes may subtract wages earned while living and working on their tribe's reservation. The federal government must recognize these tribes.

For more information, see Arizona Department of Revenue Income Tax Ruling ITR 96-4.

Line C17 - Income Tax Refund From Other States

You may subtract income tax refunds received from other states if both of the following apply.

1. You reported the refund as income on your federal return.
2. You did not deduct the taxes paid to the other state as an itemized deduction on a prior year Arizona return.

Line C18 - Other Subtractions From Income

Use line C18 if any of the following special circumstances apply. Attach your own schedule to the back of your return explaining any amounts entered here.

A. Previously Reported Gain on Decedent's Installment Sale

Prior Arizona law required acceleration of any unrecognized installment sale gain upon the death of a taxpayer. However, this acceleration could have been avoided by the posting of a bond. If acceleration was required, your federal adjusted gross income may include installment sale amounts already recognized on a decedent's final Arizona return. If your federal adjusted gross income includes such amounts, you may subtract that portion of the gain included on your federal return.

B. Estate or Trust Income

Enter on line C18 the amounts from federal Form 1041, Schedule K-1, included in your federal adjusted gross income.

If making an entry here, you must also make an entry on line B8, Additions to Income. Add the estate or trust income shown on Arizona Form 141, Schedule K-1, to your Arizona income.

C. Combat Pay

Members of the U.S. armed forces may subtract pay received for serving in a combat zone or an area given the treatment of a combat zone. Subtract only the amount included in your 1998 federal adjusted gross income.

D. Federally Taxable Arizona Municipal Interest

Enter the amount of any interest income received on obligations of the State of Arizona, or any political subdivisions of Arizona that is included in your Arizona gross income. Do not enter any Arizona municipal interest that is exempt from federal taxation and not included in your federal adjusted gross income.

E. Adoption Expenses

You may take this subtraction only in the year the final adoption order is granted. Enter the lesser of the total of the following adoption expenses or \$3,000. When figuring your subtraction, you may include expenses incurred in prior years.

The following expenses are qualified adoption expenses.

1. Nonreimbursed medical and hospital costs.
2. Adoption counseling.
3. Legal and agency fees.
4. Other nonrecurring costs of adoption.

If filing separately, you may take the entire subtraction, or you may divide the subtraction with your spouse. However, the total subtraction taken by both you and your spouse cannot exceed \$3,000.

F. Qualified Wood Stove, Wood Fireplace, or Gas Fired Fireplace

Arizona law provides a subtraction for the purchase of a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 for the purchase and installation of a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, you may also include the purchase price and installation cost of any non-optional equipment directly related to its operation. When figuring your subtraction, do not include taxes, interest, or other finance charges in the purchase price and installation costs.

NOTE: Starting with taxable years beginning from and after December 31, 1998, the subtraction for purchasing a qualified wood stove, qualified wood fireplace, or gas fired fireplace will no longer be available. The subtraction for converting an existing fireplace to a qualified fireplace will remain available.

Arizona law also provides a subtraction for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace and non-optional equipment directly related to its operation. You may subtract up to \$500 of the costs incurred for converting an existing fireplace to a qualified wood stove, qualified wood fireplace, or gas fired fireplace on your property located in Arizona. When you figure your subtraction, do not include taxes, interest, or other finance charges.

A qualified wood stove or a qualified wood fireplace is a residential wood heater that was manufactured on or after July 1, 1990, or sold at retail on or after July 1, 1992. The residential wood heater must also meet the U.S. Environmental Protection Agency's July 1990 particulate emissions standards.

A qualified gas fired fireplace is any device that burns natural or liquefied petroleum gas as its fuel through a burner system that is permanently installed in the fireplace. The conversion of an existing wood burning fireplace to noncombustible gas logs that are permanently installed in the fireplace also qualifies as a gas fired fireplace.

G. Claim of Right Adjustment for Amounts Repaid in Prior Taxable Years

You must make an entry here if all of the following apply.

1. During a year prior to 1998 you were required to repay amounts held under a claim of right.
2. You computed your tax for that prior year under Arizona's claim of right provisions.
3. A net operating loss or capital loss was established due to the repayment made in the prior year.
4. You are entitled to take that net operating loss or capital loss carryover into account when computing your 1998 Arizona taxable income.
5. The amount of the loss carryover allowed to be taken into account for Arizona purposes is more than the amount included in your federal income.

Enter the amount by which the loss carryover allowed for the taxable year under Arizona law is more than the amount included in your federal adjusted gross income.

H. Certain Expenses Not Allowed for Federal Purposes

You may subtract some expenses that you cannot deduct on your federal return when you claim certain federal tax credits. These federal tax credits are:

- the federal work opportunity credit
- the empowerment zone employment credit
- the credit for employer-paid social security taxes on employee cash tips
- the Indian employment credit

If you received any of the above federal tax credits for 1998, enter the portion of wages or salaries you paid or incurred during the taxable year equal to the amount of those federal tax credits you received.

I. Qualified State Tuition Program Distributions

If you are a beneficiary of a qualified state tuition program, you may subtract some of the amount distributed from the program for qualified education expenses. Enter the amount of the distribution that you had to include in your federal adjusted gross income. A qualified state tuition program is a program that meets the requirements of I.R.C. § 529.

J. Other Adjustments

Other special adjustments may be necessary. Call one of the numbers listed on the quick and easy access to tax help and forms page if any of the following apply.

- You are a qualified defense contractor that elected to amortize under Arizona Revised Statutes section 43-1024.
- You sold or disposed of property that was held for the production of income and your basis was computed under the Arizona Income Tax Act of 1954.

- You were an Arizona resident before December 31, 1975, and you are receiving IRA distributions from your IRA account to which you made contributions before December 31, 1975.
- You were an Arizona resident before December 31, 1975, and you are receiving distributions from your qualified self-employment retirement plan to which you made contributions before December 31, 1975.
- You deferred exploration expenses determined under Internal Revenue Code section 617 in a taxable year ending before January 1, 1990, and you have not previously taken a subtraction for those expenses.

Line C19 - Total Subtractions

Add lines C10 through C18. Enter the total here and on the front of your return on line 20.

Itemized Deduction Adjustments

Prior to completing Part D, you must complete a federal Form 1040, Schedule A. If you telefile your federal Form 1040, you do not need to complete federal Form 1040, Schedule A. Instead, use the information on your telefile worksheet for 1040 filers to complete Part D.

Generally, the itemized deductions allowed for Arizona are those itemized deductions allowable under the Internal Revenue Code.

In some cases, the itemized deductions allowed for Arizona will be different from the amount allowable under the Internal Revenue Code. The itemized deductions allowed for Arizona can differ if any of the following apply.

1. You are deducting medical and dental expenses.
2. You are deducting gambling losses while claiming a subtraction for Arizona lottery winnings.
3. You are claiming the credit for property taxes paid by a qualified defense contractor.
4. Your deductions allowable under the Internal Revenue Code include items allocable to income excluded from your Arizona taxable income.
5. You are claiming a credit for any amount allowed as a charitable contribution.

If any of the above items apply to you, complete a federal Form 1040 Schedule A and then complete Part D as instructed below. Skip Part D if the above items do not apply to you.

Lines D20 through D25

Skip lines D20 through D25 if you are **not** deducting medical and dental expenses.

In most cases, the deduction allowed on the Arizona return will be larger than the deduction allowed on the federal return. On your Arizona return, you do not have to reduce your medical expenses by a percentage of your adjusted gross income.

Line D20

Enter the total of your medical and dental expenses after you reduce these expenses by any payments received from insurance or other sources. Do not reduce the amount you enter on line D20 by amounts paid from an MSA. Do not include insurance premiums paid by an employer-sponsored health insurance plan (cafeteria plan) unless your employer included the premiums in Box 1 of your Form(s) W-2. Also do not include any other medical and dental expenses paid by the plan unless your employer included the amount paid in Box 1 of your Form(s) W-2. If self-employed, do not include any amount paid for health insurance that you deducted in computing your federal adjusted gross income. The medical and dental expenses for Arizona purposes are the same as for federal purposes.

Line D21

Enter any amount of medical and dental expenses included on line D20 that were paid from your MSA.

Complete lines D22 through D25 as instructed on the form.

Lines D26 through D30

Skip lines D26 through D30 if you are **not** deducting gambling losses.

Wagering losses can be deducted only to the extent of wagering gains. If you have reduced the amount of wagering gains included in your Arizona gross income by the subtraction allowed for Arizona lottery winnings, you may have to adjust your deduction for gambling losses.

Complete lines D26 through D30 as instructed on the form.

Line D31

Skip Line D31 if you are **not** claiming the credit for property taxes paid by a qualified defense contractor.

If you are a qualified defense contractor, you cannot claim both a deduction and a credit with respect to the same property taxes paid.

Line D32

Complete line D32 if any amounts allowed as a federal itemized deduction are for expenses allocable to income not subject to Arizona income tax. You must reduce your Arizona itemized deductions by such amounts.

Expenses allocable to income excluded from your Arizona taxable income would include:

1. Interest or other related expenses incurred to purchase or carry U.S. obligations, the income from which is exempt from Arizona income tax.
2. State taxes paid to other states for prior years if you were not an Arizona resident for that prior year.
3. Employee business expenses attributable to income excluded from your Arizona taxable income.

This list is not all inclusive. There may be other items for which you cannot take a deduction.

Enter the amount of expenses deductible on federal Schedule A that are allocable to income not subject to Arizona income tax.

Line D33

Skip line D33 if you are **not** taking any credit for an amount allowed as a charitable contribution.

You cannot claim both a deduction and a credit for the same charitable contributions. Enter the amount of charitable contributions for which you are taking a credit.

Lines D34 through D39

Complete lines D34 through D39 as instructed on the form.

Different Last Names

If you filed an Arizona tax return within the past four years with a different last name, enter your prior last name(s) in part E.

Totaling Your Income

Line 11 - Federal Adjusted Gross Income

You must complete your federal return before you enter an amount on line 11. You must complete a 1998 federal return to determine your federal adjusted gross income even if not filing a federal return.

Arizona uses federal adjusted gross income as a starting point to determine Arizona taxable income. Your federal adjusted gross income is your Arizona gross income.

ALERT: If your Arizona gross income is greater than \$75,000, you may need to make estimated payments. See "Do You Need to Make Estimated Payments" instructions on page 3.

Line 12 - Additions to Income

Enter the amount from line B9, page 2, of your return.

Line 13 - Medical Savings Account (MSA) Distributions

For information on Arizona's MSA provisions, see the department's MSA brochure, Pub 542.

You must add amounts received from an MSA here if any of the following apply.

1 - You Withdrew Funds From Your MSA For Other Than Qualified Expenses

You must make an entry here if all of the following apply.

1. You withdrew money from your MSA during 1998.
2. You did not use the amount withdrawn to pay qualified medical expenses.
3. You did not have to include the withdrawal as income on your federal income tax return.

Enter the amount withdrawn.

2 - Deceased Account Holder Where the Named Beneficiary is Not the Decedent's Surviving Spouse

You must make an entry here if all of the following apply.

1. The account holder died during the year.
2. You are the named beneficiary of the decedent's MSA.
3. You are not the decedent's surviving spouse.
4. You did not have to include the value of the MSA as income on your federal income tax return.

In this case, the MSA ceased to be an MSA. Enter the fair market value of the MSA as of the date of death, less the amount of MSA funds used within one year of the date of death, to pay the decedent's qualified medical expenses. You can reduce the fair market value by only those expenses paid from the MSA. If you pay additional medical expenses for the decedent from the MSA after you file, you may file an amended return to further reduce the fair market value of the MSA.

3 - Decedent's Final Return And No Named MSA Beneficiary

Make an entry here if all of the following apply.

1. The account holder died during the year.
2. There is no named MSA beneficiary.
3. This is the decedent's final return.
4. The value of the MSA did not have to be included on the decedent's final federal income tax return.

In this case, the MSA ceases to be an MSA. Enter the fair market value of the MSA as of the date of death. This rule applies in all cases in which there is no named beneficiary, even if the surviving spouse ultimately obtains the right to the MSA assets.

NOTE: The following are not withdrawals. Do not enter any of the following:

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information about the above items, see the department's MSA brochure, Pub 542.

Line 15 - Deposits and Employer Contributions Into MSAs

Deposits Made Into Your MSA

If you have an MSA, you may be able to subtract deposits made into that MSA. Make an entry here if all of the following apply.

1. You have an MSA that qualifies as an MSA under Arizona law, but not federal law.
2. Either you or your employer made deposits into that MSA during the tax year.
3. You had to include the deposits in income on your federal income tax return.

Enter the amount of the MSA deposits that you had to include in your federal adjusted gross income.

Employer Contributions Made to Employee MSAs

If you are an employer, you may subtract the amount contributed to your employees' MSAs that are established under Arizona law. You can subtract these contributions only to the extent not deductible for federal income tax purposes. Enter these contributions here.

Line 16 -Elective Subtraction of Federal Retirement Contributions

This line applies only to individuals who were civilian employees of the United States Government during 1998. The Arizona Board of Tax Appeals has ruled that no refunds of Arizona income taxes paid on contributions to federal retirement plans are due for any years after 1990. The taxpayers have appealed that determination to the Arizona Tax Court, so the issue is not yet final.

Line 16 is provided to alert you to a remedy available to you under Arizona law. On your 1998 return, you have two options.

Option #1

You may subtract the amount of contributions to your retirement plan that was withheld from your wages paid by the federal government. Enter on line 16 the 1998 amount of such contributions **included in your federal adjusted gross income**. If you choose this option and the courts ultimately decide that it is legal for the State of Arizona to tax your retirement contributions, you will owe additional tax and accrued interest. (Also, see *Protective Claim for Refund* below.)

Option #2

You may choose to ignore line 16. You may instead file the protective claim form. This form is in the front of this instruction booklet. Under this option you will pay tax on your contributions to the federal retirement plan. You will also protect your rights to a credit or refund of this tax if the courts ultimately decide that is appropriate. The state will pay interest in this event.

Protective Claim for Refund

You can find this form at the bottom of the page titled *Notice to Current And Former Federal Civilian Employees*. If you were a civilian employee of the United States government at any time during the years 1994 through 1998, you should complete this claim form. Submitting this claim form will protect your rights to tax relief for the years you were so employed. If you choose **option #2** for 1998, you should also include 1998 in your claim. Claims for

1994 must be postmarked by April 15, 1999, to be valid. If you previously filed a protective claim for 1994 through 1997, only include 1998 on the claim form filed for 1998.

Please do not include the protective claim with your 1998 income tax return. Mail the claim form separately to the address indicated to ensure proper handling.

Line 20 - Subtractions From Income

Enter the amount from line C19, page 2, of your return.

Figuring Your Tax

Line 23 - Itemized or Standard Deductions

You must decide whether to take the standard deduction or to itemize your deductions. Your Arizona income tax will be less if you take the larger of your standard deduction or your itemized deduction.

Your Standard Deduction

If you take the standard deduction, check box 23S.

If your filing status is:	Your standard deduction is:
• Single	\$ 3,600
• Married filing separately	\$ 3,600
• Married filing jointly	\$ 7,200
• Head of household	\$ 7,200

Your Itemized Deduction

You may claim itemized deductions on your Arizona return even if you take a standard deduction on your federal return. For the most part, you may claim those deductions allowable as itemized deductions under the Internal Revenue Code. In some cases, the amount allowed for some deductions may not be the same as the amount allowable for federal purposes. You may have to adjust the amounts shown on your completed federal Form 1040, Schedule A. See Part D of Arizona Form 140 to figure if you have to make any adjustments.

To figure your itemized deductions, you must complete a federal Form 1040, Schedule A. If you telefile your federal Form 1040, you do not need to complete federal Form 1040, Schedule A. Instead, use the figures on your telefile worksheet for 1040 filers. Then, if required, complete Part D of Arizona Form 140. If you do not have to complete Part D, enter the amount from federal Form 1040, Schedule A, or your telefile worksheet for 1040 filers on Form 140, line 23.

NOTE: If you itemize, you must attach a copy of the completed federal Schedule A to your Arizona return. If you telefile your federal Form 1040, you must attach your telefile worksheet for 1040 filers. If itemizing, check box 23I.

Line 24 - Personal Exemptions

The amount you may claim as a personal exemption depends on your filing status. If married, the amount you may claim as a personal exemption also depends on whether you or your spouse claim dependents. You may use the chart below to figure your personal exemption. If married, you may also use Form 202 to figure your personal exemption.

Personal Exemption Chart	
If you checked filing status	Enter
• Single (Box 7)	\$2,100
• Married filing joint return (Box 4) and claiming no dependents (Box 10)	\$4,200
• Married filing joint return (Box 4) and claiming at least one dependent (Box 10)	\$6,300
• Head of household and you are not married (Box 5)	\$4,200
• Head of household and you are a married person who qualifies to file as head of household (Box 5)	\$3,150 Or Complete Form 202 <i>Personal Exemption Allocation Election.</i>
• Married filing separately (Box 6) with neither spouse claiming any dependents (Box 10)	\$2,100 Or Complete Form 202 <i>Personal Exemption Allocation Election.</i>
• Married filing separately (Box 6) with one spouse claiming at least one dependent (Box 10)	\$3,150 Or Complete Form 202 <i>Personal Exemption Allocation Election.</i>

A married couple who does not claim any dependents may take one personal exemption of \$4,200. If the husband and wife file separate returns, either spouse may take the entire \$4,200 exemption, or the spouses may divide the \$4,200 between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$2,100. If you and your spouse do not complete Form 202 you may take an exemption of only \$2,100 (one-half of the total \$4,200).

A married couple who claims at least one dependent may take one personal exemption of \$6,300. If the husband and

wife file separate returns, either spouse may take the entire \$6,300 exemption, or the spouses may divide the \$6,300 between them. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150. If you and your spouse do not complete Form 202 you may take an exemption of only \$3,150 (one-half of the total \$6,300).

If you are a married person who qualifies to file as a head of household, you may take the entire \$6,300 personal exemption or you may divide the exemption with your spouse. You and your spouse must complete Form 202 if either you or your spouse claim a personal exemption of more than \$3,150. If you and your spouse do not complete Form 202 you may take an exemption of only \$3,150 (one-half of the total \$6,300).

The spouse who claims more than one-half of the total personal exemption must attach the original Form 202 to his or her return. The spouse who claims less than one-half of the total personal exemption must attach a copy of the completed Form 202 to his or her return.

Line 26 - Taxable Income

Subtract line 25 from line 22 and enter the result. Use this amount to calculate your tax using Tax Rate Table X or Y or the Optional Tax Rate Tables.

Line 27 - Tax Amount

Enter the tax from either Tax Rate Table X or Y or the Optional Tax Rate Tables.

NOTE: You cannot use the Optional Tax Rate Tables if any of the following apply.

1. You are single or married filing separately and your taxable income is \$20,000 or more. In this case, you must use Tax Rate Table X.
2. You are married filing jointly or head of household and your taxable income is \$40,000 or more. In this case, you must use Tax Rate Table Y.

Line 28 - Tax From Recapture of Credits From Arizona Form 301

Enter the amount of tax due from recapture of the environmental technology credit and/or the recycling equipment credit from Form 301, Part II, line 22.

Line 29 - Subtotal of Tax

Add lines 27 and 28.

Line 30 - Family Income Tax Credit

You may take this credit if you meet the income threshold for your filing status.

- Complete steps 1, 2, and 3 to see if you qualify for this credit.
- If you qualify to take this credit, complete Worksheet II in step 4.

Step 1

Complete Worksheet I below.

Worksheet I	
1. Enter the amount from Form 140, page 1, line 17.	
2. Enter the amount from Form 140, page 1, line 18.	
3. Enter the amount from Form 140, page 1, line 19.	
4. Enter the amount from Form 140, page 1, line 22.	
5. Add lines 1 through 4. Enter the result.	

Step 2

Look at the following tables. Find your filing status.

- Use Table I if married filing a joint return.
- Use Table II if head of household.
- Use Table III if single or married filing a separate return.

Step 3

- Look at the column (a) labeled "number of dependents" and find the number of dependents you are claiming.
- Find the income threshold amount in column (b) next to the number of dependents you are claiming.
- Compare that income threshold amount in column (b) with the income listed in Step 1 on Worksheet I, line 5.

If the amount entered in step 1 on Worksheet I, line 5 is equal to or less than the income threshold for the number of dependents you are claiming, you qualify to take this credit. To figure your credit, complete step 4.

Table I Married Filing a Joint Return	
Column (a)	Column (b)
Number of dependents	Income Threshold
• 0 or 1	\$20,000
• 2	\$23,600
• 3	\$27,300
• 4 or more	\$31,000

Table 2 Head of Household	
Column (a)	Column (b)
Number of dependents	Income Threshold
• 0 or 1	\$20,000
• 2	\$20,135
• 3	\$23,800
• 4	\$25,200
• 5 or more	\$26,575

Table 3 Single Or Married Filing Separately	
Column (a)	Column (b)
Number of dependents	Income Threshold
• 0 or more	\$10,000

Step 4

If you qualify to take the credit, complete this Worksheet following the tables.

Worksheet II	
1. Enter the number of dependents you entered in box 10, page 1, Form 140.	
2. Number of personal exemptions. If you checked filing status 4, enter the number 2 here. If you checked filing status 5, 6, or 7, enter the number 1 here.	
3. Add lines 1 and 2. Enter the result.	
4. Multiply the amount on line 3 by \$40. Enter the result.	
5. If you checked filing status 4 or 5, enter \$240 here. If you checked filing status 6 or 7, enter \$120 here.	
6. Family income tax credit. Enter the lesser of line 4 or line 5. Also enter this onto Form 140, page 1, line 30.	
NOTE: The family income tax credit will only reduce your tax and cannot be refunded.	

Line 31 - Credits From Arizona Form 301

Complete line 31 if you can take any of the following credits.

1. **Defense Contracting Credit.** You may qualify for this credit if you are an Arizona Department of Commerce certified defense contractor who has qualified increases in employment. This tax credit also includes a provision for a property tax credit. Use Form 302 to figure this credit.

2. **Enterprise Zone Credit.** You may qualify for this credit if your business in an Arizona enterprise zone had net increases in qualified employment positions. Use Form 304 to figure this credit.

3. **Environmental Technology Credit.** You may qualify for this credit if your business incurred expenses in constructing a qualified environmental technology manufacturing facility. Use Form 305 to figure this credit.

4. **Military Reuse Zone Credit.** You may qualify for this credit if you have qualifying net increases in full-time employment within a military reuse zone. Use Form 306 to figure this credit.

5. Recycling Equipment Credit. You may qualify for this credit if your business has installed recycling material equipment. Use Form 307 to figure this credit.

6. Credit for Taxes Paid to Another State or Country. You may qualify for this credit if you paid tax to Arizona and another state or country on the same income. Use Form 309 to figure this credit.

7. Solar Energy Credit. You may qualify for this credit if you installed a solar energy device in your residence located in Arizona. Use Form 310 to figure this credit.

8. Agricultural Water Conservation System Credit. You may qualify for this credit if you incurred expenses to purchase and install an agricultural water conservation system in Arizona. Use Form 312 to figure this credit.

9. Alternative Fuel Credit. You may qualify for this credit if you purchased or leased a new alternative fuel vehicle. You may also qualify for this credit if you converted your conventional vehicle to operate as an alternative fuel vehicle. You may qualify for this credit if you constructed or operated an alternative fuel refueling station. Use Form 313 to figure this credit.

10. Underground Storage Tanks Credit. You may qualify for this credit if you incurred expenses correcting a release of a regulated substance from an underground storage tank. To qualify for this credit, you must not have been liable or responsible for the corrective action as an owner or operator of the underground storage tank. Use Form 314 to figure this credit.

11. Pollution Control Credit. You may qualify for this credit if you purchased depreciable property used in a trade or business to reduce or prevent pollution. Use Form 315 to figure this credit.

12. Construction Materials Credit. You may qualify for this credit if you purchased construction materials for a building used in manufacturing, mining, or research and development. Your construction costs must have been more than five million dollars. Use Form 316 to figure this credit.

13. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets You may qualify for this credit if you install solar hot water heater plumbing stub outs or electric vehicle recharge outlets in houses or dwelling units you construct. Use Form 319 to figure this credit.

14. Credit for Employment of TANF Recipients. You may qualify for this credit if you employed TANF recipients during the taxable year. Use Form 320 to figure this credit.

15. Credit for Contributions to Charities that Provide Assistance to the Working Poor. You may qualify for this credit if you made contributions to certain charities that provide help to the working poor. Use Form 321 to figure this credit.

16. Credit for Fees Paid to Public Schools. You may qualify for this credit if you paid certain fees to public schools in Arizona. Use Form 322 to figure this credit.

17. Credit for contributions to School Tuition Organizations. You may qualify for this credit if you made contributions to a school tuition organization that provides scholarships or grants to qualified schools. Use Form 323 to figure this credit.

Compute your credit on the appropriate form. Then complete Form 301 and enter the amount from Form 301, line 41. The credits on line 31 cannot reduce your tax below zero. These credits are not refundable credits.

Attach Arizona Form 301, along with any supporting documents, to your return.

Line 32 - Credit Type

If you entered an amount on line 31, write the form number(s) of the credit(s) from Arizona Form 301, Part II.	
If you are claiming:	Write form number:
1. Defense Contracting Credit	302
2. Enterprise Zone Credit	304
3. Environmental Technology Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Credit for Taxes Paid to Another State or Country	309
7. Solar Energy Credit	310
8. Agricultural Water Conservation System Credit	312
9. Alternative Fuel Credit	313
10. Underground Storage Tanks Credit	314
11. Pollution Control Credit	315
12. Construction Materials Credit	316
13. Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
14. Credit for Employment of TANF Recipients	320
15. Credit for Contributions to Charities That Provide Assistance to the Working Poor	321
16. Credit for Fees Paid to Public Schools	322
17. Credit for Contributions to School Tuition Organizations	323

Line 33 - Total Credit

Add lines 30 and 31. Enter the result.

Line 34 - Balance of Tax

Subtract line 33 from line 29, but do not enter an amount less than zero. If line 33 is more than line 29, enter zero on line 34.

Totaling Payments and Credits

Line 35 - Arizona Income Tax Withheld

Enter the Arizona income tax withheld shown on the Form(s) W-2 from your employer. Also enter the Arizona income tax withheld shown on your Form(s) 1099-R (distributions from pensions, annuities, etc.). Do not include any income tax withheld for another state. Attach the Form(s) W-2 and 1099-R to the front of your return.

NOTE: You should receive your Form(s) W-2 no later than January 31. If you did not receive a Form W-2 or you think your Form W-2 is wrong, contact your employer.

Line 36 - Arizona Estimated Tax Payments for 1998 and Amount Applied From 1997 Return

Use this line if you did one of the following.

1. Made estimated income tax payments to Arizona for 1998.
2. Applied any of your refund from your 1997 Arizona return to 1998 estimated taxes for Arizona.

Enter the total amount paid and/or applied to 1998 taxes.

Line 37 - Amount Paid With 1998 Extension Request (Form 204)

Use this line to report the payment you sent with your extension request.

Line 38 - Property Tax Credit

You may take the property tax credit if you meet **all** the following.

1. You were either 65 or older in 1998 or receiving SSI Title 16 income from the Social Security Administration.

NOTE: This is not the normal Social Security disability.

2. You were an Arizona resident for the full year in 1998.
3. You paid property tax on your Arizona home in 1998. You paid rent on taxable property for the entire year or you did a combination of both.
4. If you lived alone, your income from all sources was under \$3,751. If you lived with others, the household income was under \$5,501.

Complete Form 140PTC to figure your credit. Enter the amount from Form 140PTC, line 15.

Attach Form 140PTC to your return.

Tax Tip: To claim a property tax credit, you must file your claim or extension request by April 15, 1999.

Line 39 - Total Payments and Credits

Add lines 35 through 38. Enter the total.

Also, do the following if you computed your 1998 tax under

Arizona's claim of right provisions.

1. Write "ARS § 43-1029" and the amount of the prior year tax reduction in the space to the left of your total payment amount.
2. Include the credit for the prior year tax reduction in the total entered on line 39.
3. Attach a schedule explaining the amounts repaid and the computation of the prior year tax reduction.

For more information on Arizona's claim of right provisions, see Individual Income Tax Procedure ITP 95-1.

Figuring Your Overpayment or Tax Due

Line 40 - Tax Due

If line 34 is more than line 39, you have tax due. Subtract line 39 from line 34. Skip lines 41, 42 and 43.

Line 41 - Overpayment

If line 39 is more than line 34, subtract line 34 from line 39. Complete lines 42 and 43.

Line 42 - Amount of line 41 to Apply to 1999 Tax

If you want all or part of your refund applied to next year's estimated taxes, enter that amount.

Line 43 - Balance of Overpayment

Subtract line 42 from line 41 to determine your overpayment balance before voluntary gifts and any estimated payment penalty.

Making Voluntary Gifts

You can make voluntary gifts to each of the funds shown below. A gift will reduce your refund or increase the amount due with your return.

You cannot change original gifts later on amended returns.

Line 44 - Aid For Education Fund

Gifts go to the Arizona Assistance for Education Fund. The Arizona Board of Education will distribute money in this fund to school districts.

CAUTION: If you make a contribution to this fund, you must contribute your entire refund. You may not give more than your entire refund.

Line 45 - Arizona Wildlife Fund

You may give some or all of your refund to the Arizona Wildlife Fund. You may also give more than your entire refund.

Gifts go to the Arizona Game, Nongame, Fish and Endangered Species Fund. This fund helps protect and conserve over 1,000 nongame species.

Line 46 - Child Abuse Prevention Fund

You may give some or all of your refund to the Arizona Child Abuse Prevention Fund. You may also give more than your entire refund.

Gifts go to the Arizona Child Abuse Prevention Fund. This fund provides financial aid to community agencies for child abuse prevention programs.

Line 47 - Neighbors Helping Neighbors Fund

You may give some or all of your refund to the neighbors helping neighbors fund. You may also give more than your entire refund.

Gifts go to the Neighbors Helping Neighbors Fund. This fund provides eligible recipients with emergency aid in paying energy utility bills and conserving energy.

Line 48 - Special Olympics Fund

You may give some or all of your refund to the Special Olympics Fund. You may also give more than your entire refund.

Gifts go to the Special Olympics Fund. This fund helps provide programs of the Arizona Special Olympics.

Line 49 - Domestic Violence Shelter Fund

You may give some or all of your refund to the domestic violence shelter fund. You may also give more than your entire refund.

Gifts go to the Domestic Violence Shelter Fund. This fund provides financial aid to shelters for victims of domestic violence.

Line 50 - Political Gifts

Gifts go to one of the following political parties:

- Democratic
- Libertarian
- Reform
- Republican

You may give some or all of your refund to a political party. You may also give more than your entire refund.

Line 51 - Political Party

Check the box for the political party to which you wish to give. Select only one party. If you do not select a political party, the department will return the amount on line 50.

Line 52 - Estimated Payment Penalty and Interest

You must have made Arizona estimated income tax payments during 1998 if you meet either of the following.

1. You reasonably expected your Arizona gross income to exceed \$75,000 in 1998.
2. Your Arizona gross income in 1997 was greater than \$75,000.

In projecting current Arizona gross income, you must use ordinary business care and prudence.

If you were unable to project your 1998 Arizona gross income, you may request a waiver from the requirement to make estimated payments. The department may grant a waiver for one or more payment periods. You must request a waiver in writing. If requesting a waiver, attach your request to your return when you file. Your request must explain why you could not reasonably project your Arizona gross income for one or more payment periods during 1998.

The department may grant a waiver only if all of the following apply.

1. Your Arizona gross income in the preceding taxable year was less than \$75,000.
2. Using ordinary business care and prudence, you were unable to reasonably project your 1998 Arizona gross income.

You must attach Form 221 and your waiver request to your return.

If you report as a farmer or fisherman for federal purposes, you were not required to make estimated payments during 1998 if the following apply.

1. You are a calendar year filer. You file your Arizona return by March 1, 1999. You pay in full the amount stated on your return as payable.
2. You are a fiscal year filer. You file your Arizona return by the first day of the third month after the end of your fiscal year. You pay in full the amount stated on your return as payable.

If the above applies, check Box 2 on line 53 and do not complete Form 221.

An individual who fails to make the required estimated payments is subject to penalty and interest on any estimated tax payment that is late or underpaid.

Complete and attach Form 221, *Underpayment of Estimated Tax by Individuals*, to determine if any penalty and interest are due. Enter total penalty and interest from Form 221.

Line 53 -

Box 1 - Check box 1 if any of the following applies to you:

1. You checked the box on line 1 of Form 221.
2. You completed the annualized income worksheet on Form 221.
3. You elected to be treated as a nonresident alien on your federal income tax return. You made three estimated payment installments. Your first installment equaled 50 percent of the total of all of your required installments.

Box 2 - If you are an individual who for federal purposes reports as a farmer or fisherman, check box 2.

Box 3 - If you completed and attached Form 221, check box 3.

Line 54 - MSA Withdrawal Penalty

You must pay a withdrawal penalty if you made an MSA withdrawal during 1998 and all of the following apply.

1. You used the amount withdrawn for purposes other than to pay for qualified medical expenses.
2. You made the withdrawal on a day other than the last business day of the year.
3. The withdrawal is not subject to the federal withdrawal penalty.

The penalty is equal to 10 percent of the withdrawal. The withdrawal penalty is not subject to abatement. You must remit this penalty with your income tax return filed for the year in which you made the withdrawal.

Multiply the amount of your withdrawal subject to penalty by 10 percent. Enter the result.

The following withdrawals are not subject to the penalty.

1. Any withdrawal subject to the federal withdrawal penalty.
2. Withdrawals made from your MSA on the last business day of the tax year.
3. Any withdrawal made by an account holder who is at least age 59 1/2 when he or she makes the withdrawal.

NOTE: The following are not withdrawals. Do not enter a penalty for any of the following.

- Amounts from the MSA used to pay qualified medical expenses
- A qualified return of excess contributions
- A qualified rollover
- The fair market value of an MSA received by a surviving spouse who was the deceased account holder's named beneficiary

For more information about the above items, see the department's MSA brochure, Pub 542.

Figuring Your Refund or Tax Due

Line 56 - Refund

Subtract line 55 from line 43. Enter your refund on line 56 and skip line 57.

If you owe money to any state agency and certain federal agencies, your refund may go to pay some of the debt. If so, the department will let you know by letter.

Tax Tip: If you change your address before you get your refund, let the department know. Write to: Refund Desk, Arizona Department of Revenue, 1600 W Monroe, Phoenix AZ 85007. Include your social security number in your letter.

Line 57 - Amount Owed

Add lines 40 and 55. Enter the amount you owe on line 57. Make your check payable to Arizona Department of

Revenue. Write your social security number on the front of your check or money order. Attach your check or money order to the front of your return where shown.

The department cannot accept checks or money orders in foreign currency. You must make payment in U.S. dollars.

Sign Your Return

You must sign your return. If married filing a joint return, both you and your spouse must sign even if only one had income. The department cannot send a refund check without proper signatures on the return.

Instructions Before Mailing

- Be sure you enter your home telephone number in the space provided on the front of your return. If your daytime telephone number is not the same as your home number, also enter a daytime number.
 - Check to make sure that your math is correct. A math error can cause delays in processing your return.
 - Make sure your **NAME** is on the return. If you received your return in the mail, use the preprinted label. **If the label is not correct, do not use it.**
 - If claiming **dependent** exemptions, write the number of dependents claimed on the **front** of the return. On page 2 of the return, also write each dependent's name, relationship, social security number, and the number of months that he or she lived in your home.
 - Check the **boxes** to make sure you filled in all required boxes.
 - Sign your return and have your spouse sign if filing jointly.
 - Attach **all** required documents.
1. Attach Form(s) W-2 to the **front** of the return. Also attach Form(s) 1099-R to the front of the return if you had Arizona tax withheld from your pension or annuity.
 2. Write your social security number on the front of your check and attach your *check* to the **front** of the return.
- The Department of Revenue may charge you \$25 for a check returned unpaid by your financial institution.
3. Attach Arizona Form 301 and your own schedules to the back of the return.
 4. If claiming a credit for taxes paid to another state or country, attach a copy of the other state's or country's filed return.
 5. If you requested a filing extension, attach a copy of the federal or state extension request to the front of the return.
 6. If you itemize, be sure to attach a copy of the federal Schedule A. If you telefile your federal return, attach your telefile worksheet.
 7. If you are claiming a property tax credit, attach a

completed Form 140PTC and all required documents.

8. If you have tax exempt interest income, be sure to attach a schedule listing the payors and the amount received from each payor.

Filing Your Return

Before you mail your return, make a copy of your return. Also make a copy of any schedules that you are sending in with your return. Keep the copies for your records. Be sure that you file the original and not a copy.

To mail your return, use the envelope that came in your booklet. If it is missing, send the return to: Arizona Department of Revenue, PO Box 29002, Phoenix AZ 85038-9002.

Make sure you put enough postage on the envelope.

The U.S. Post Office must postmark your return or extension request by midnight April 15. A postage meter postmark will not qualify as a timely postmark. *Only a postmark from the U.S. Post Office will qualify.*

How Long To Keep Your Return

Keep your records as long as they are important for any Arizona tax law. Keep all records that support your income and deductions for a tax year until the period of limitations expires for the return for that tax year. A period of limitations is the limited time after which no legal action can be brought. Usually, this is four years from the date the return was due or filed.

In some cases, the limitation period is longer than four years. The period is six years from when you file a return if you under report the income shown on that return by more than 25 percent. The department can bring an action at any time if a return is false or fraudulent, or you do not file a return.

Keep records that establish the basis of property for a period longer than four years. Also keep net operating loss records back to the date you incurred the loss. To find out more about what records you should keep, get federal Publication 552.

When To Expect Your Refund

Expect your refund in the mail within 8 weeks of the date you filed. If you have not received your refund by that time, contact one of the numbers listed on the quick and easy access to tax forms and help page.

HOW MUCH INCOME CAN YOU HAVE AND PAY NO TAXES?

You still have to file a return, but you pay no taxes if your income is less than the levels shown in the chart below. This is possible because of the tax rate reductions and the family income tax credit provided by your legislators and the governor.

NUMBER OF DEPENDENTS	FILING STATUS			
	SINGLE	MARRIED FILING SEPARATE	HEAD OF HOUSEHOLD	MARRIED FILING JOINT
0	\$ 7,100	\$ 7,100	N/A	\$ 14,200
1	(A) 10,000	10,000	16,500	20,000
2	10,300	11,350	20,135	23,600
3	12,600	13,650	23,800	27,300
4	14,900	15,950	25,200	(C) 31,000
5	17,200	18,250	(B) 26,575	31,000

EXAMPLES

	(A) single, \$10,000 income, one dependent	(B) head of household, \$26,575 income, five dependents	(C) married filing joint, \$31,000 income, four dependents
Income	\$ 10,000	\$ 26,575	\$ 31,000
less: Dependent exemption	-2,300	-11,500	-9,200
Standard deduction	-3,600	-7,200	-7,200
Personal exemption	-2,100	-4,200	-6,300
Net taxable income	\$ 2,100	\$ 3,675	\$ 8,300
Tax (optional tax table)	\$ 61	\$ 106	\$ 240
less: Family tax credit	-80	-240	-240
Tax owed	\$ 0	\$ 0	\$ 0